MINUTES OF THE
COMMITTEE OF THE WHOLE MEETING
VILLAGE OF NORTHFIELD
TUESDAY, SEPTEMBER 15, 2020

The Committee of the Whole meeting was called to order remotely via Zoom, due to the COVID-19 crisis, by Village President Joan Frazier on Tuesday, September 15, 2020 at 5:30 p.m. Village Clerk Stacy Sigman called the roll as follows:

Committee Members Present: Absent: Trustee Tom Terrill
Trustee John Goodwin
Trustee Greg Lungmus
Trustee Charles Orth
Trustee Todd Fowler (arrived at 6:00 p.m.)
Trustee Tom Whittaker

President Joan Frazier

Others Present:
Village Manager Stacy Sigman, Melissa DeFeo, Director of Administrative Services, Finance Director Kyle Cratty, Ron Amen and Kevin Cavanaugh of Lauterbach & Amen, and Village Attorney Mallory Milluzzi.

Approval of the August 18, 2020 Report of Proceedings

Trustee Whittaker made a motion, seconded by Trustee Orth to approve the August 18, 2020 Report of Proceedings. Approval was unanimous.

Review and Discussion of the Police Pension Actuarial Report – Lauterbach & Amen

Kevin Cavanaugh was present for a financial report for the FY ending on April 30, 2020. Rather than providing the full report and in response to COVID-19, he prepared an adaption to the presentation covering the high points. Everyone was distributed a full copy of the report. There were a lot of changes affecting the Pension Fund this year with higher than average contribution increases.

The recommended contribution that has been calculated was based on census data and financial data as of April 30, 2020. This year's December tax levy comes in at $1,390,000 which is an increase from the prior year of 11.3% or $140,000. Annually there is generally an increase more in the 3 to 4% range. Some factors impacted the fund this year that contributed to this large increase. They analyzed the funded percentage of the fund and ended the fiscal year at 59.6% funded, which was down 2% from last year. The total unfunded liability that existed within the Pension Fund was $14,100,000, which is being funded over the next 20 years in full. A significant portion of this year's recommended contribution was a payment towards that unfunded liability.

They looked at the demographics for the Pension Fund and there are 19 active members and 23 inactive members. Going forward we don't expect to see huge increases in the benefit payments that are coming out of the Pension Fund since expected retirements are not anticipated. When looking at benefit payments paid out over the last fiscal year, it was just under $1.4 million. However, in ten years, we expect those annual benefit payments to be about $2.5 million representing about an 80% increase. These existing and future benefit payments are being accounted for and impacting the recommended contributions.

The demographics create risks that are unique to this Pension Fund. The total market value of assets for the Fund is just over $19 million with inactive liabilities of about $21 million, noting that there is a shortfall there. This means that there is not enough money set aside as of the fiscal year-end to cover future liabilities for the inactive population. The Pension Fund has a slight cash flow risk. That means that some of the dollars that in an ideal world we would like to set aside for future members benefit payments will be going out the door to current retirees.

The ratio of benefit payments as a proportion of the market value of assets of the fund is over 7%. That means that the fund is paying out just over 7% of its total value in benefit payments annually. The expected rate of return on investments is 6.75%, but investment earnings alone are insufficient in paying the benefit payments annually. Some additional cash inflows for the fund through employee and employer contributions will be set aside and allocated towards benefit payments annually. In terms of the number of active members in the plan, that is considered to be a moderate demographic risk, which is just a function of the size of the Pension Fund. In terms of demographic changes during the year, there was one member who was hired during the year, one member who terminated service, and the overall aging of the population.

An assumption study is completed every 3 to 5 years. L&A will do an actuarial assumption study where they will do a comprehensive review of all the assumptions for the Pension Fund. Through that process they have updated many actuarial assumptions. The first few were a reduction in future expectations including a reduction in the expectation of inflation of individual pay increases. Another change was in mortality rates, where there was a shift to reflect new data available. They still blend natural data with local Illinois Police Pension data as in the past. The difference is that they include national data on the mortality rates of the average blue-collar American that is specific to public safety employees. By merging the national data with the local data, they get a more accurate picture of what mortality is going to look like going forward.

Another update this year is that we are relying on actual spousal data for both retired and disabled members. This is a new, annual data filing requirement with the Illinois Department of Insurance. With this data available, we reflected an accountable increase since several members got married and 89% of the retired and disabled members are married. They also reviewed a new wage schedule and no major changes were made.

L&A detailed the plan changes that are being observed this year, which is all part of the pension consolidation legislation. There was a part of this bill that provided for improvements to Tier II members' benefits. A Tier II member is anyone hired after January 1, 2011. With the new legislation, their benefits were enhanced over the old plan provisions. This increase in benefits to employees results in additional expenses to employers. Three cash inflows can be used to plan for those expected increases in benefits: employee contributions, employer contributions, and investment earnings. The change in legislation did not change the employee contribution rates or investment earnings. The funding of these additional benefits has a direct impact on the recommended contribution for the Village for this year.

We expected to see an increase of about $40,000. In terms of salary increases, these were less than expected, leading to a reduction of $9,000. The demographic changes that were discussed brought a net reduction of about $29,000. The assumption changes that encompassed all of the L&A 2020 assumptions brought about a $70,000 increase. The biggest driver of the increase was the additional contributions for the Tier II benefit enhancements. There are nineteen active members and only three are Tier II employees, but that still resulted in a $27,000 increase. Asset returns, which is measured on a five-year smooth basis, came in at 3-1/2% versus the expectation of 6.75% leading to an increase of $45,000 this year. Contributions greater than expected are the Village's 100% contribution so some are due to timing but led to a net reduction of about $4,000. The total increase in contribution was $142,000.

A breakdown was depicted in the market value of assets over the year. We started the fiscal year with just over $19.5 million in the Pension Fund and ended with just over $19.1 million. The fund was down about $440,000. The rate of return at that time period came in at (-3%) versus the expected return of 6.75%.

Mr. Cavanaugh showed a calculation of the statutory minimum contribution, which is different from what the Illinois Department of Insurance does annually. This is developed using our assumptions set but then matching to a statutory minimum funding policy. You target 90% funding, use a different method for value and liabilities, and target that funding by 2040. Using that methodology, we calculated the statutory minimum to be $1,152,000 versus their recommendation of $1,390,000 which is about a $240,000 discrepancy which was due to targeting 10% less in liabilities.

Mr. Cavanaugh then showed a five-year employer contribution history. The Village has been consistent in contributing to the recommended monetary contributions. From a GASBY reporting perspective, this is good news because the Village funds the pension plan in full based on the recommended dollars every year. The plan is projected to be fully solvent.

President Frazier indicated that they probably should not do anything different this year, citing this is just a result of the market and times. She regretted the recommended contribution but knows we will figure it out how to fund it. She asked Mr. Cavanaugh if he can predict what may happen when the state takes over through pension consolidation. Mr. Cavanaugh said pension consolidation became effective January 1, 2020. This started a 30-month timer for the state to consolidate the money from each pension fund into a big, consolidated fund. To his knowledge, no funds have actually been transferred yet. Before they merge the assets, the consolidated boards will be doing an audit of each pension fund to make sure everything is legitimate before it transfers over. He anticipates this movement in the next year or two. When the funds are consolidated, a positive is that the investment authority restrictions that currently apply to the local pension funds will not apply to the consolidated pension fund. That could result in increased returns but it depends on market timing and whether the consolidated investment board is going to take a risky asset allocation with higher equity ratios and a longer rate of return. At some future point, the consolidated board will hire an actuary to determine actuarial assumptions that will be used in setting contributions. They will look at the expected rate of return on investments and we expect to see a cohesive assumption for this expected rate of return. Under the consolidated fund model, all funds are going to be invested the same, so there is no argument to say that this fund should have a higher rate of return than another one. It is hard to predict whether that expected rate of return will be up or down. Northfield is at 6.75% which is a moderate place to be for a fund of this size. The consolidated fund might think that 6.5% is a better rate. Lowering that expectation would increase the recommended contribution. We could also see them saying a 7% rate, but it is hard to predict at this point. This consolidation will be coming within the next two years which will result in potential changes to the actuarial process and certain modifications to the investment allocation.

President Frazier said she wished the bottom line was better, but that we could not have done anything differently. Mr. Cavanaugh agreed that it has been a tough year with municipalities negatively impacted by COVID-19, along with changes to the Tier II benefits and the impending consolidation of funds.

Trustee Lungmus said as a trustee he feels a responsibility to have a smooth five-year return average over 3% and particularly since our target is 6.75%. He questioned if Mr. Cavanaugh was saying that the board of the consolidated pension funds would determine that rate of return, leading ultimately to the Village completely losing control of the funds. Mr. Cavanaugh replied that was correct.

Director Cratty said that is how IMRF functions. The consolidated police fund will use the same model and set the assumptions and contributions based on the actuary that board hires.

<u>Review and Discussion of the Draft FY2019/2020 Comprehensive Annual Financial Report – Lauterbach & Amen</u>

Director Cratty stated that the overall financial performance is one of the key indicators the Boards examines. The General Fund overall has a $6.9 million balance and the Board's adopted policy is to ensure we keep the reserve level at a minimum of six months. As the audit showed, we ended FY20/21 with a 7.5- month reserve level. This is a good base, especially since we are having more conversations about how COVID-19 is affecting the Village.

Ron Amen said on page 8 of the audit was the Certificate of Achievement. For 13 consecutive years, the Village of Northfield has proudly received the Government Finance Officers Association's Certificate of Achievement. This is the highest award that you can receive on the audit. It does not relate to your financial health, but it does make sure that all professional standards and requirements being disclosed are appropriate.

Within the audit on pages 9 and 10, the auditor's opinion stated that the Village was clean and unmodified which means that your financial statements are materially correct based on the auditing procedures.

Within the audit on pages 32 and 33, there was a statement of revenues and expenditures for the 12 months ending April 30, 2020. The General Fund ended the year with $6.9 million unrestricted and another small percent for prepaid. The Governmental Fund as a whole showed an increase of about $144,000 for the Village for the year.

On page 37 of the audit, there was a $157,000 increase in the balance of the Water and Sewer Fund. This audit process was a bit different this year and Mark worked with the auditors on-site and remotely. There were a few things that could be done remotely and they appreciated everything Mark did. As in the past, he was always prepared.

President Frazier noted in L&A's letter of August 27, 2020, it stated any material misstatements detected as a result of audit procedures were to be corrected by management. Mr. Amen confirmed that there were none were detected. They are accountants and deal with numbers and they are not retained to detect fraud. A lot of that language is required as a professional standard.

President Frazier pointed out that in the past, there have always a few minor notes or comments to be corrected but noticed that there were none this year. She expressed kudos to the staff for having a 100% report. She said the Village has a lot of money with IMET and in the past, there was a fraud problem with that fund. She asked for Mr. Amen's opinion on whether we should continue to do business with them. Mr. Amen stated that he did not have exact numbers in front of him but noted that a final payout from IMET has not yet happened, since it is still pending in the courts. Initially, Northfield wrote 50% of the IMET balance off and each year they worked with Steve Noble to figure out what additional amount to write off. Director Cratty said the trust was set up post fraud, and that has collected back somewhere between 55% and 60% of the lost assets. Those have then in turn been rebated back to the individual municipalities. He doesn't know the exact amount left, but he believes the original assumption was that only a 49.5% collection was anticipated and they have collected more than that. The current amount that Northfield has sitting at IMET is only $1,205.00. Northfield no longer invests through them and there is not plan to do so in the future.

<u>Other Business</u>

Trustee Orth made a motion, seconded by Trustee Goodwin to adjourn the meeting to Closed Session, to approve the Closed Session meeting minutes from the January 21, 2020 Village Board Closed Session meeting pursuant to 5 ILCS 120/2(c)(21) and to discuss the internal audit controls and fraud risks pursuant to 5 ILCS 120/2(c)(16) and to adjourn the Committee of the Whole meeting thereafter at 6:02 p.m.

AYES:	Orth Fowler Lungmus Goodwin Whittaker	NAYS: 0	ABSTAIN: 0	ABSENT: Terrill

The meeting adjourned at 6:24 p.m.